

The New York Times

WEDNESDAY, MARCH 31, 2004

Bush Plans For Tax Cuts Barely Avert House Setback

By RICHARD A. OPPEL Jr.

WASHINGTON, March 30 — House Republican leaders avoided an embarrassing setback on Tuesday, barely defeating a nonbinding resolution favoring new restrictions on future tax cuts that are the centerpiece of President Bush's economic program.

The major budget fight between the House and Senate this year is not over provisions of the budget itself, as both Republican-controlled chambers have passed \$2.4 trillion spending blueprints for next year that largely track Mr. Bush's proposal. Instead, it is over rules that would make it more difficult for Congress to pass new tax cuts that are not paid for by increases in other taxes or spending cuts. The Senate has approved such a "pay as you go" measure that covers taxes, but Mr. Bush and Republican Congressional leaders strenuously oppose it.

In a vote reflecting the apprehension of many lawmakers that the \$478 billion budget deficit is becoming a major election-year concern for voters, the House split 209 to 209 on Tuesday on a measure urging members negotiating a budget deal with the Senate to accept Senate tax-cut restrictions. At one point, 212 members had voted for the measure, but House leaders kept the vote open for more than 20 extra minutes to pressure a handful of members to change their votes. The tie meant that the measure was defeated.

With House leaders able to maintain their chamber's opposition to the "pay as you go" rule, attention is turning to two senators who may hold the budget's fate in their hands: Olympia J. Snowe and Susan Collins, both Republicans from Maine.

Earlier this month, both women joined with two other Republican senators, John McCain of Arizona and Lincoln Chafee of Rhode Island, and all but one Democrat to approve, 51 to 48, an amendment to require 60 votes for the Senate to approve any new tax cuts in the next five years that are not offset by spending cuts or increases in other taxes. White House officials acknowledge that the provision could make it difficult for Mr. Bush, if he is re-elected, to win extensions of tax cuts passed in the last three years that expire by the end of the decade.

Mr. McCain and Mr. Chafee say they will vote for a final budget only if it includes the provision. On Tuesday, Ms. Collins said she was open to a compromise, perhaps a provision of shorter duration.

"It might be possible to have something that was more limited in time," she said. "I am open to discussing any reasonable alternative."

Ms. Snowe indicated she was less inclined to compromise. "I'm not likely to vote for a conference report without pay-go that treats tax cuts and spending equally," Ms. Snowe said Tuesday, referring to the legislative shorthand for "pay as you go."

If the provision is stripped in House-Senate negotiations, and the budget fails to win Senate approval as a result, Congress would be forced to operate without a budget, making it more difficult to control spending.

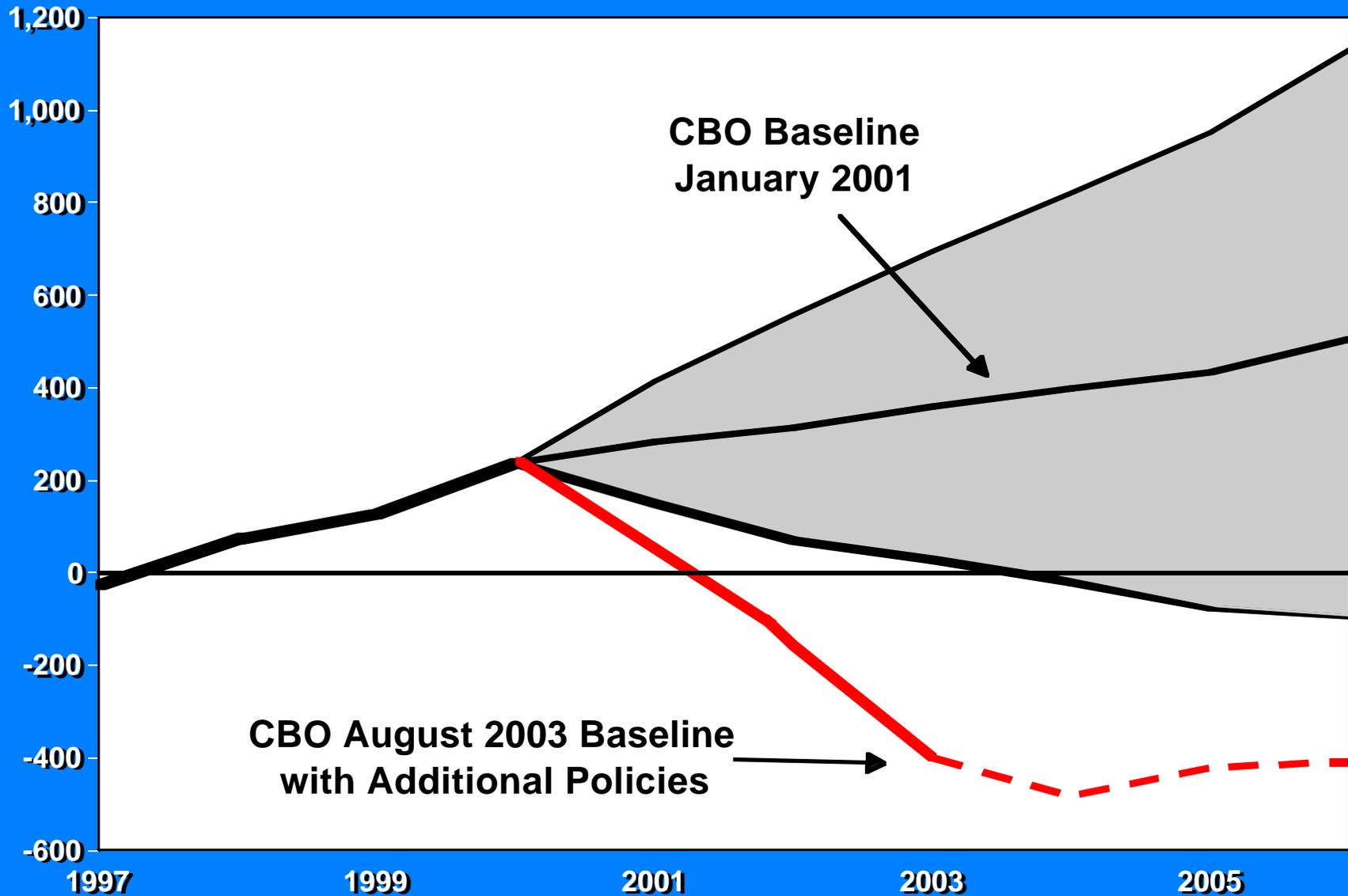
Reflecting the high stakes of this debate, the White House has been leaning on both Ms. Snowe and Ms. Collins. After the vote in the Senate earlier this month, Ms. Collins said a White House official called "to protest my vote." And Ms. Snowe said that she recently talked to Mr. Bush about the issue.

"The president wants to make sure that these tax cuts are extended," Ms. Snowe said.

House Republican leaders say they still oppose applying "pay as you go" to taxes. On Tuesday, the majority leader, Representative Tom DeLay of Texas, restated a view that has been cited by other Republican House leaders: tax cuts pay for themselves by generating economic growth that more than makes up for lost revenue.

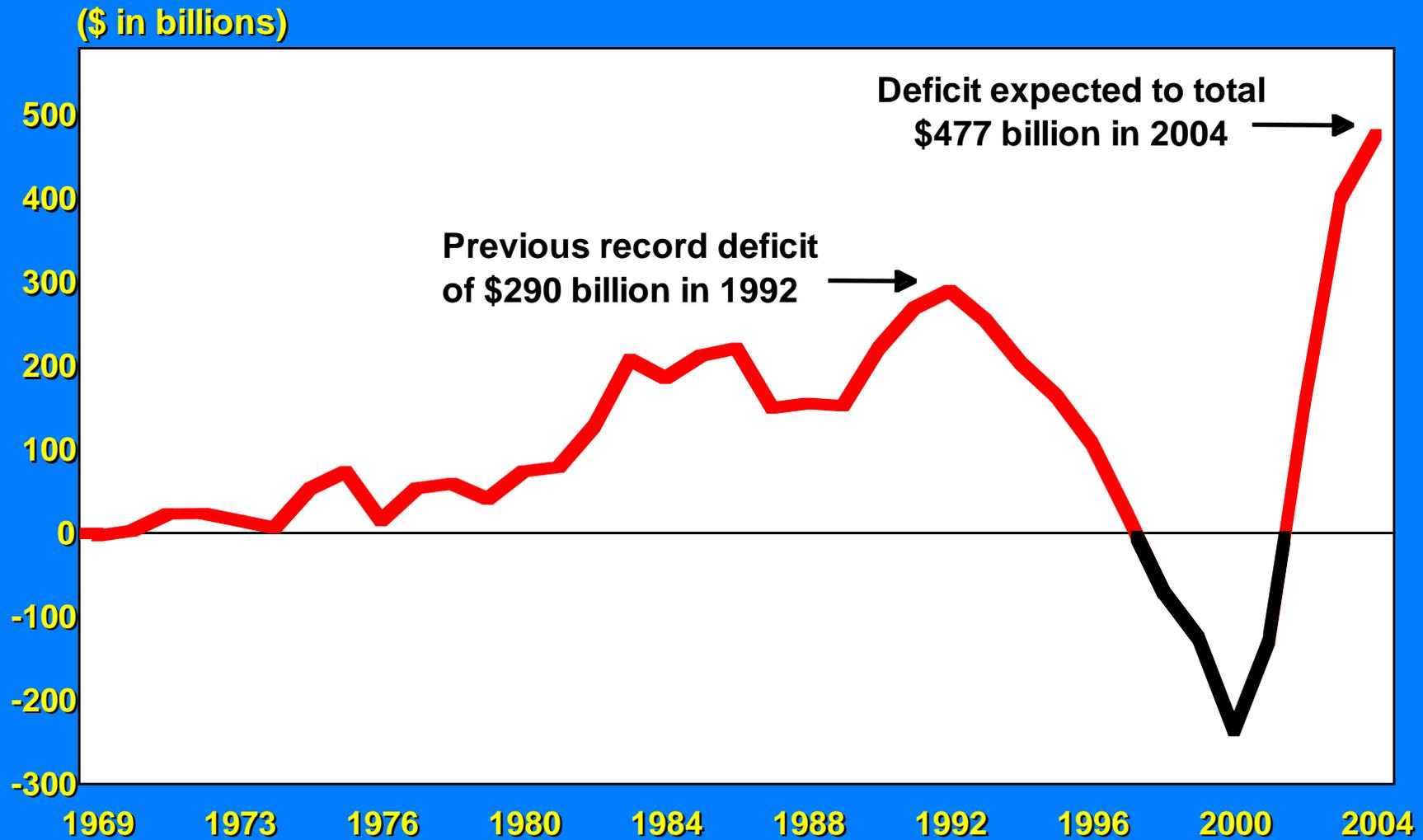
"We, as a matter of philosophy, understand that when you cut taxes the economy grows, and revenues to the government grow," Mr. DeLay said. "The whole notion that you have to cut spending in order to cut taxes negates that philosophy, and so I'm not interested in something that would negate our philosophy."

Uncertainty in Surplus Projections



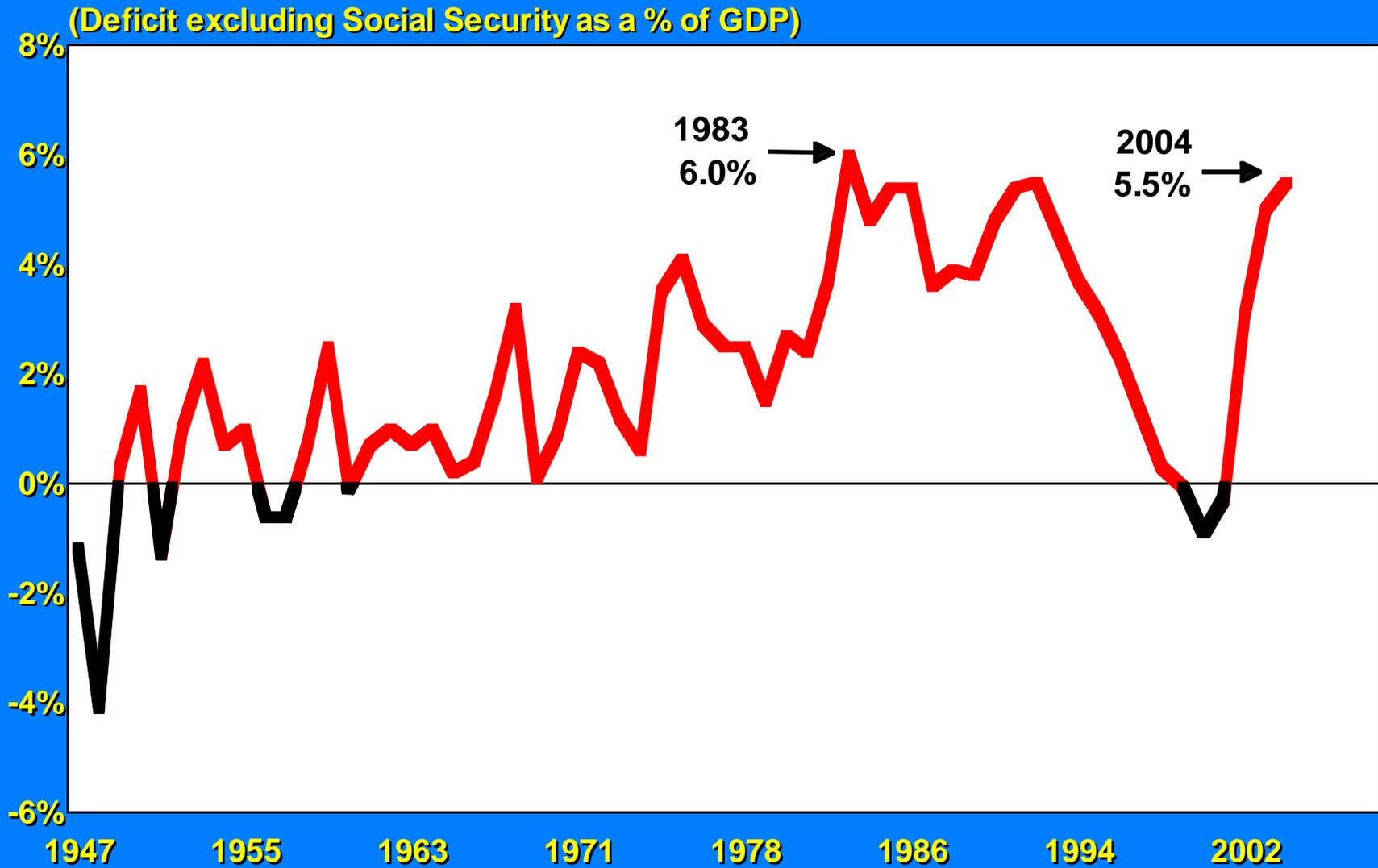
Note: Additional policies include CBO estimates of the extension of expiring taxes, AMT reforms, and a prescription drug benefit.

Deficits in 2003 and 2004 Far Exceed Previous Record in Dollar Terms



Source: CBO

Deficit as a Share of Economy Nears Highest Level Since 1945



Source: OMB, CBO

CBO Report Shows Bush Wrong to Blame Economy for Deficits

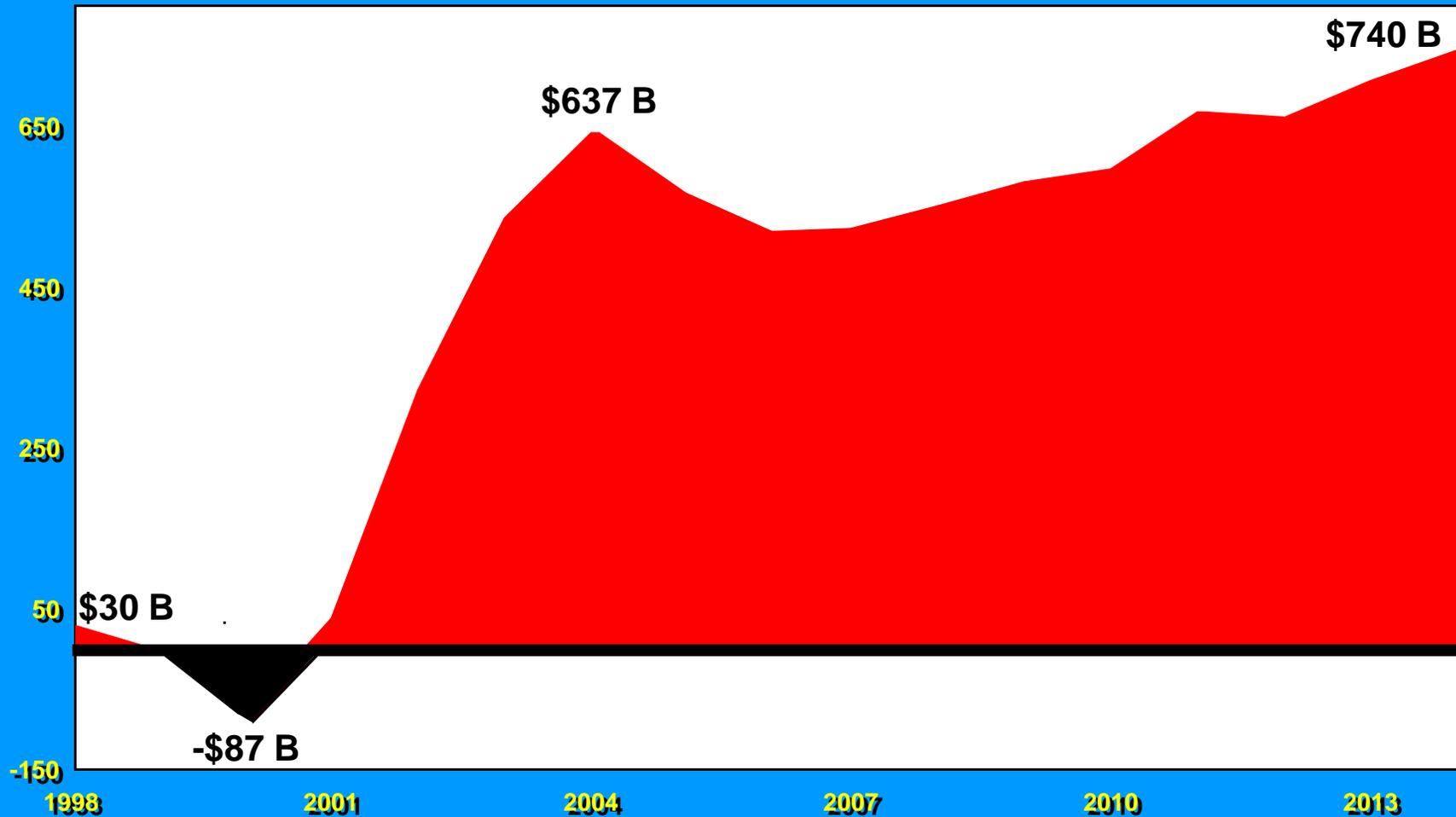
“When President Bush and his advisers talk about the widening federal budget deficit, they usually place part of the blame on economic shocks ranging from the recession of 2001 to the terrorist attacks that year. But a report released on Monday by the nonpartisan Congressional Budget Office estimated that economic weakness would account for only 6 percent of a budget shortfall that could reach a record \$500 billion this year...

“The new numbers confirm what many analysts have predicted for some time: that budget deficits in the decade ahead will stem less from the lingering effects of the downturn and much more from rising government spending and progressively deeper tax cuts.”

**– *New York Times*,
“Deficit Study Disputes Role Of Economy”
By Edmund L. Andrews
March 16, 2004**

Deficits Skyrocket with Bush Budget Policies, AMT Reform, and Ongoing War Costs

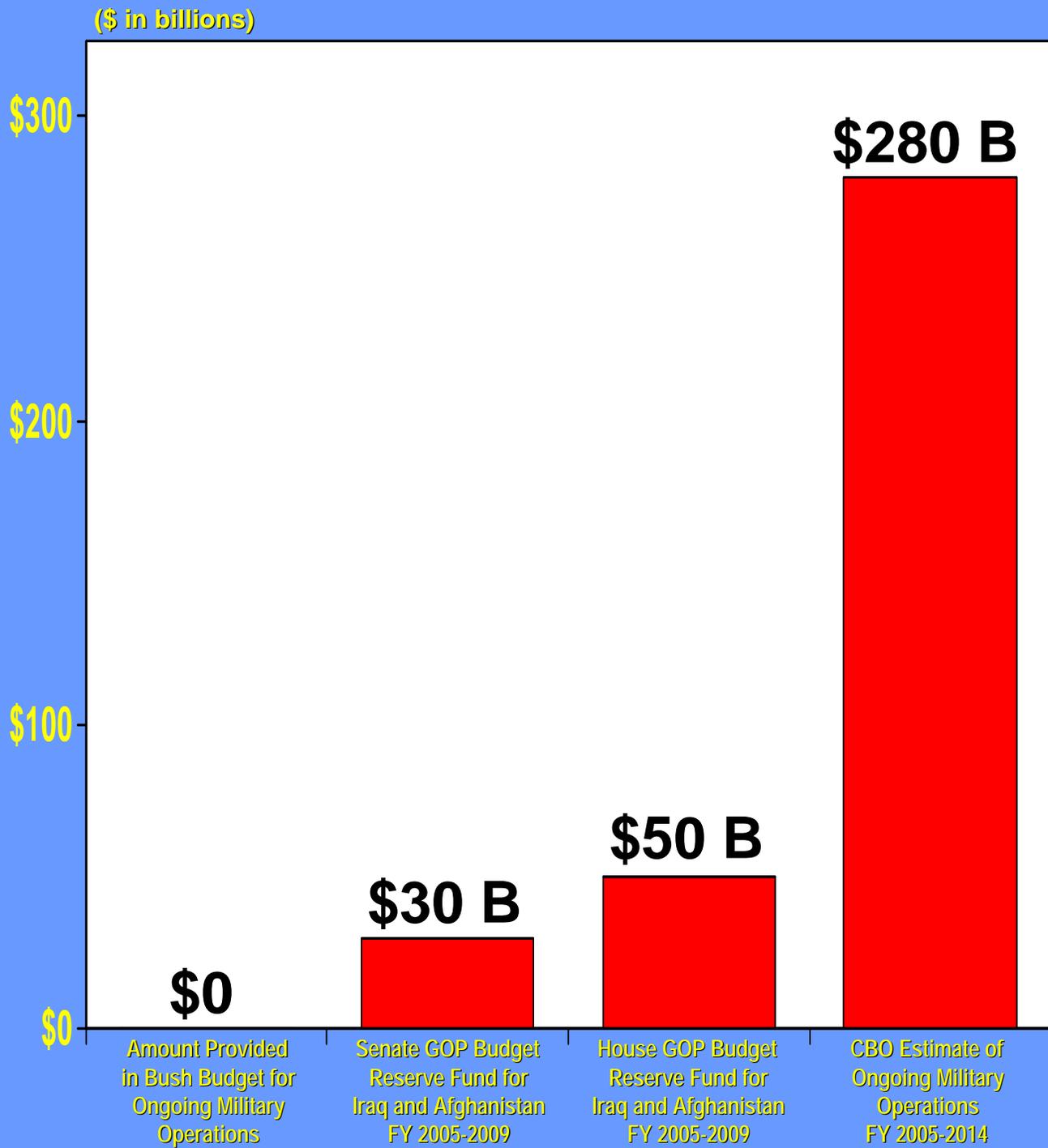
(Deficit excluding Social Security in billions of \$)



Source: CBO, SBC

Note: CBO March 2004 reestimate of Bush budget plus AMT reform and CBO estimate of ongoing war costs.

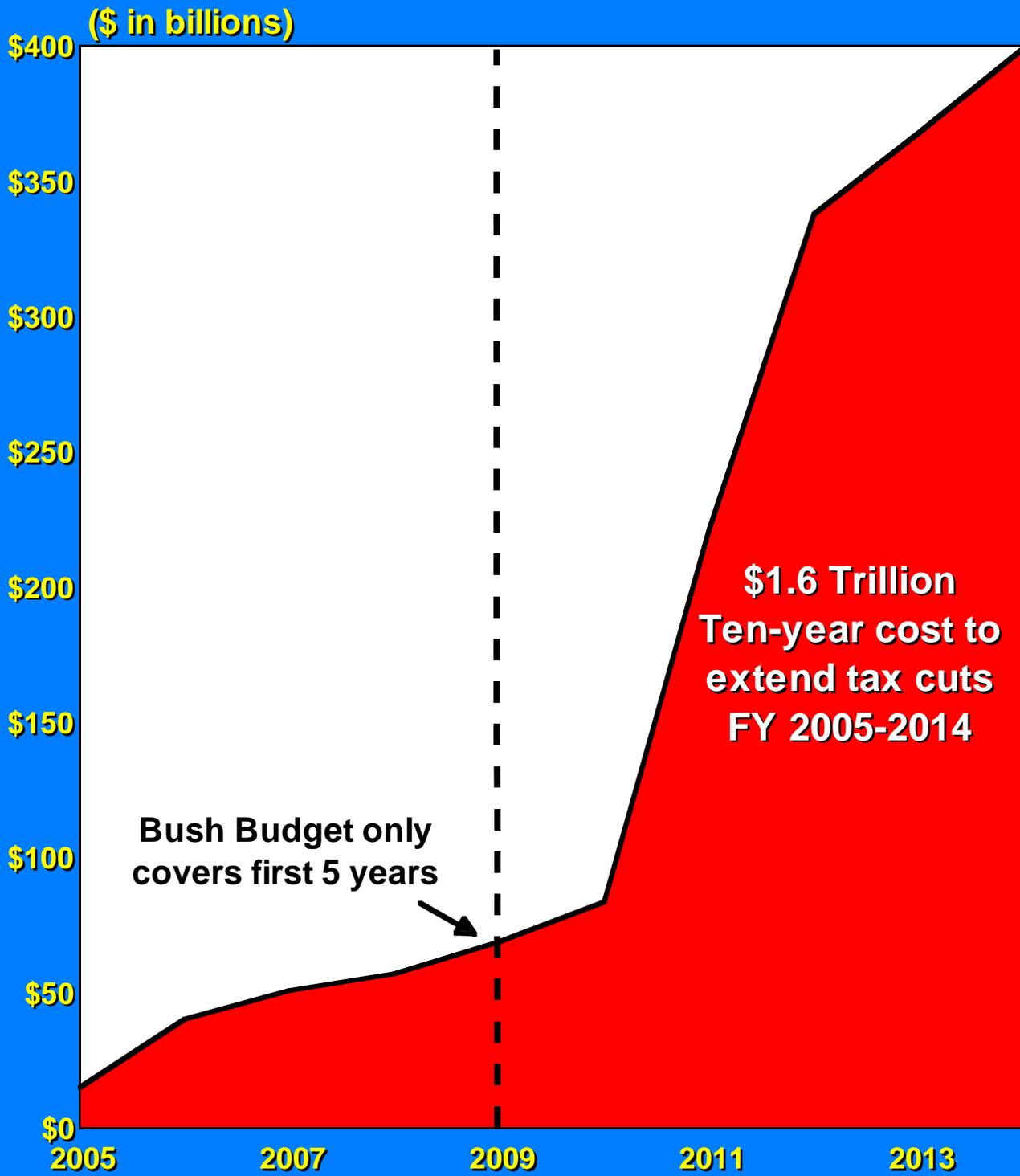
GOP Budgets Provide Only Short-Term Funding for Ongoing Operations in Iraq, Afghanistan, and Continuing War on Terror



Source: OMB, SBC, and CBO Report, July 2003, "The Long-Term Implications of Current Defense Plans"

Bush Budget Hides the Full Story

Cost of Extending Tax Cuts Explodes Outside Five-Year Budget Window



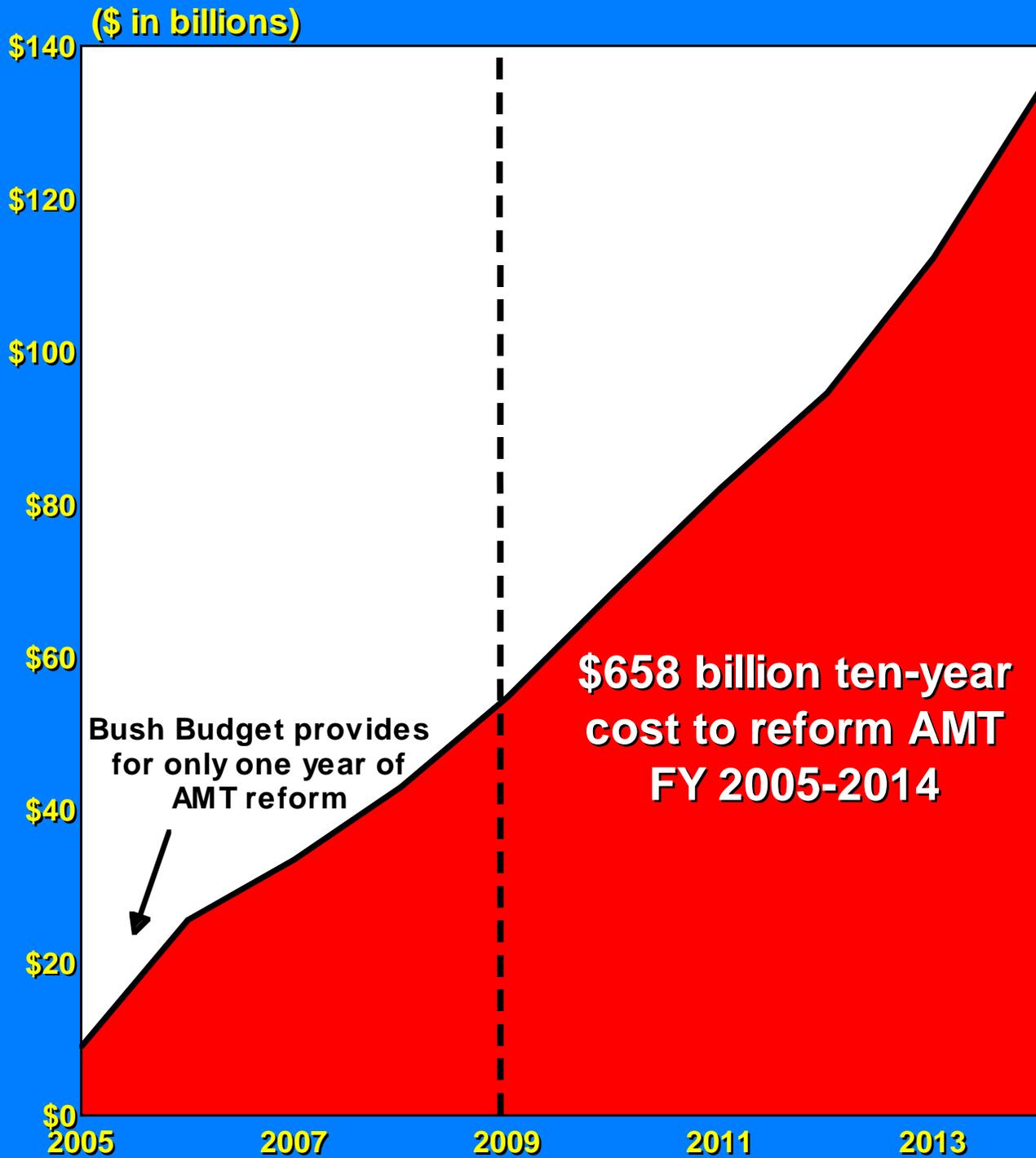
Source: CBO

Note: Includes interest cost

Bush Budget Hides the Full Story

Cost of AMT Reform Explodes

Outside Five-Year Budget Window

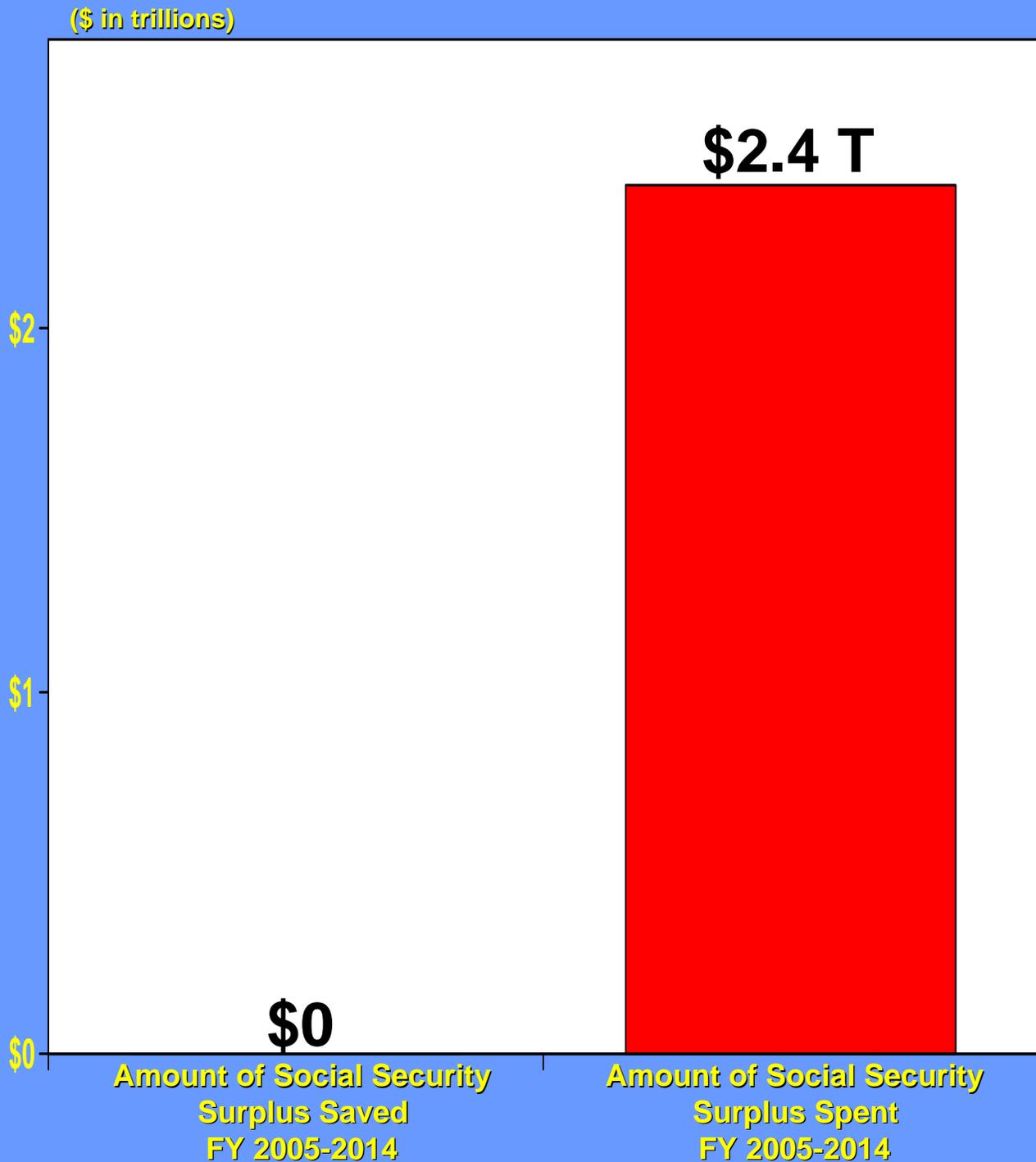


Source: CBO

Note: Cost to reform AMT if tax cuts are made permanent, including interest.

Bush Budget Hides the Full Story

Every Penny of Social Security Surplus Spent

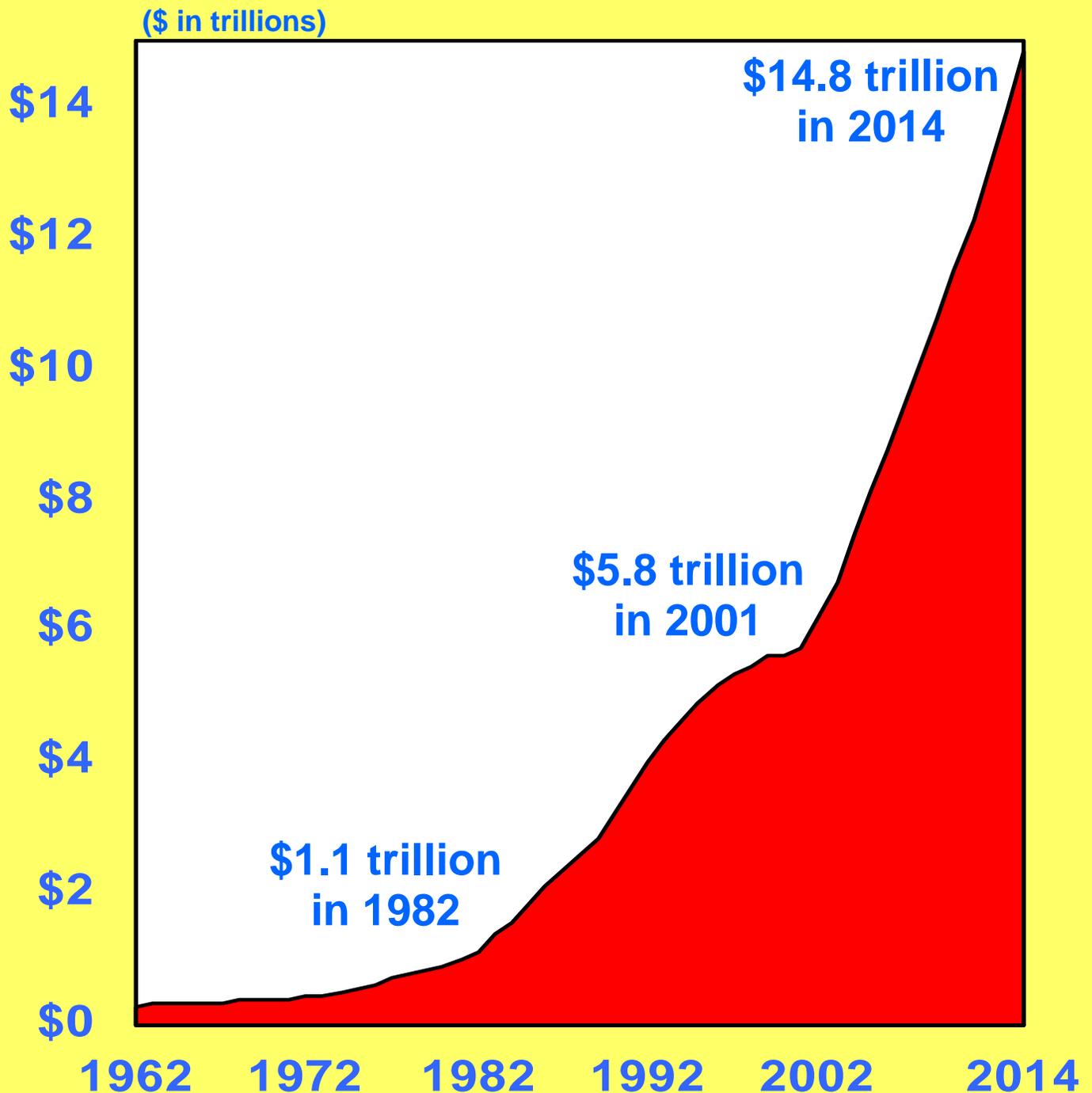


Source: CBO

Note: Amount of Social Security surplus spent on tax cuts and other things, instead of saved to prepare for retirement of baby boom generation.

Gross Federal Debt

Assuming Bush Budget Policies,
AMT Reform, and Ongoing War Costs



Source: OMB, CBO, and SBC

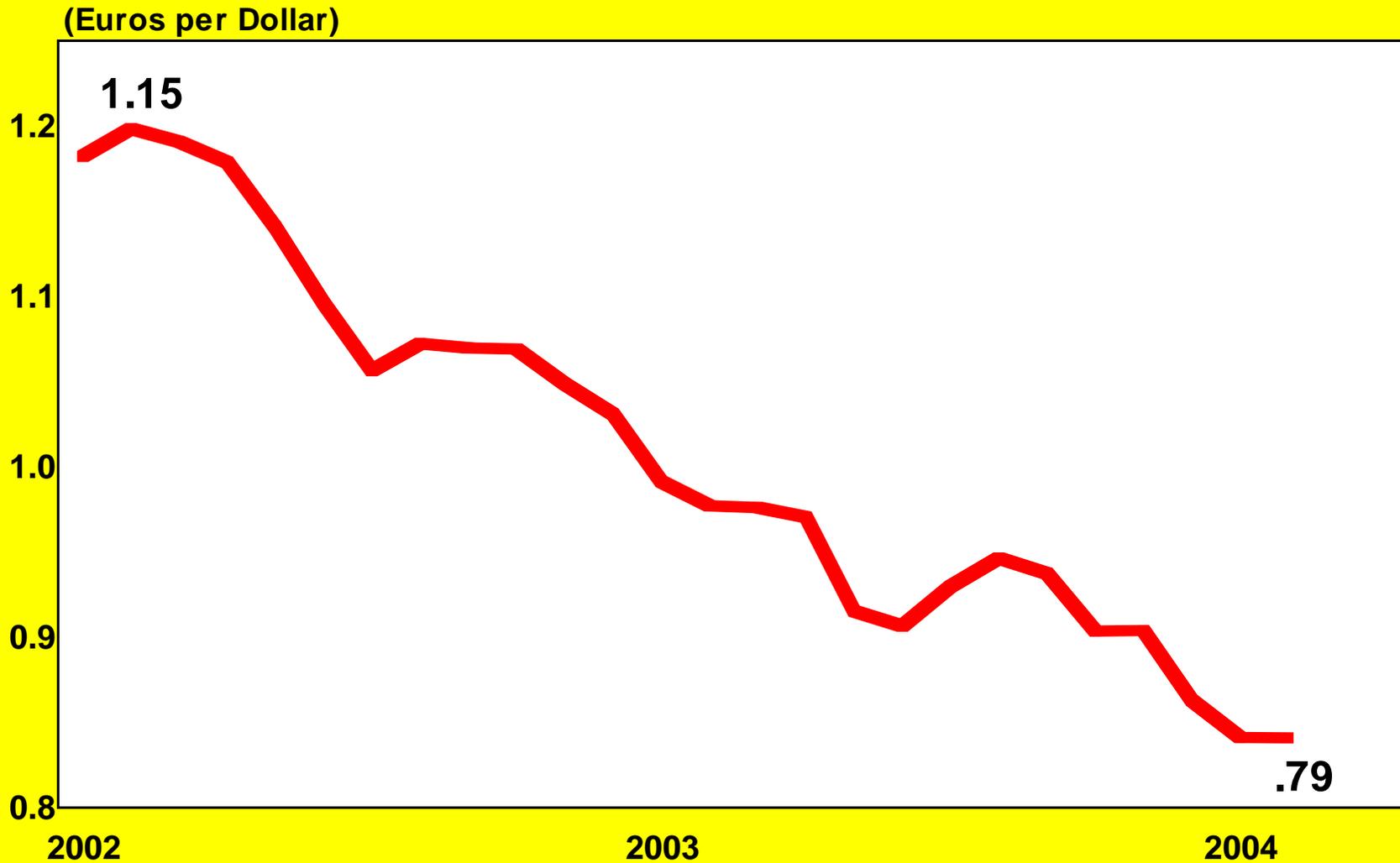
Note: CBO February 2004 reestimate of Bush budget plus AMT reform and CBO estimate of ongoing war costs.

Top Ten Countries Holding Our National Debt

Japan	\$545 B
China	\$149 B
United Kingdom	\$113 B
“Caribbean Banking Centers”	\$69 B
Hong Kong	\$58 B
Taiwan	\$46 B
Germany	\$45 B
OPEC	\$44 B
South Korea	\$43 B
Switzerland	\$40 B

Source: Department of Treasury
Note: As of December 2003

Dollar Declines More Than 30 Percent Against Euro



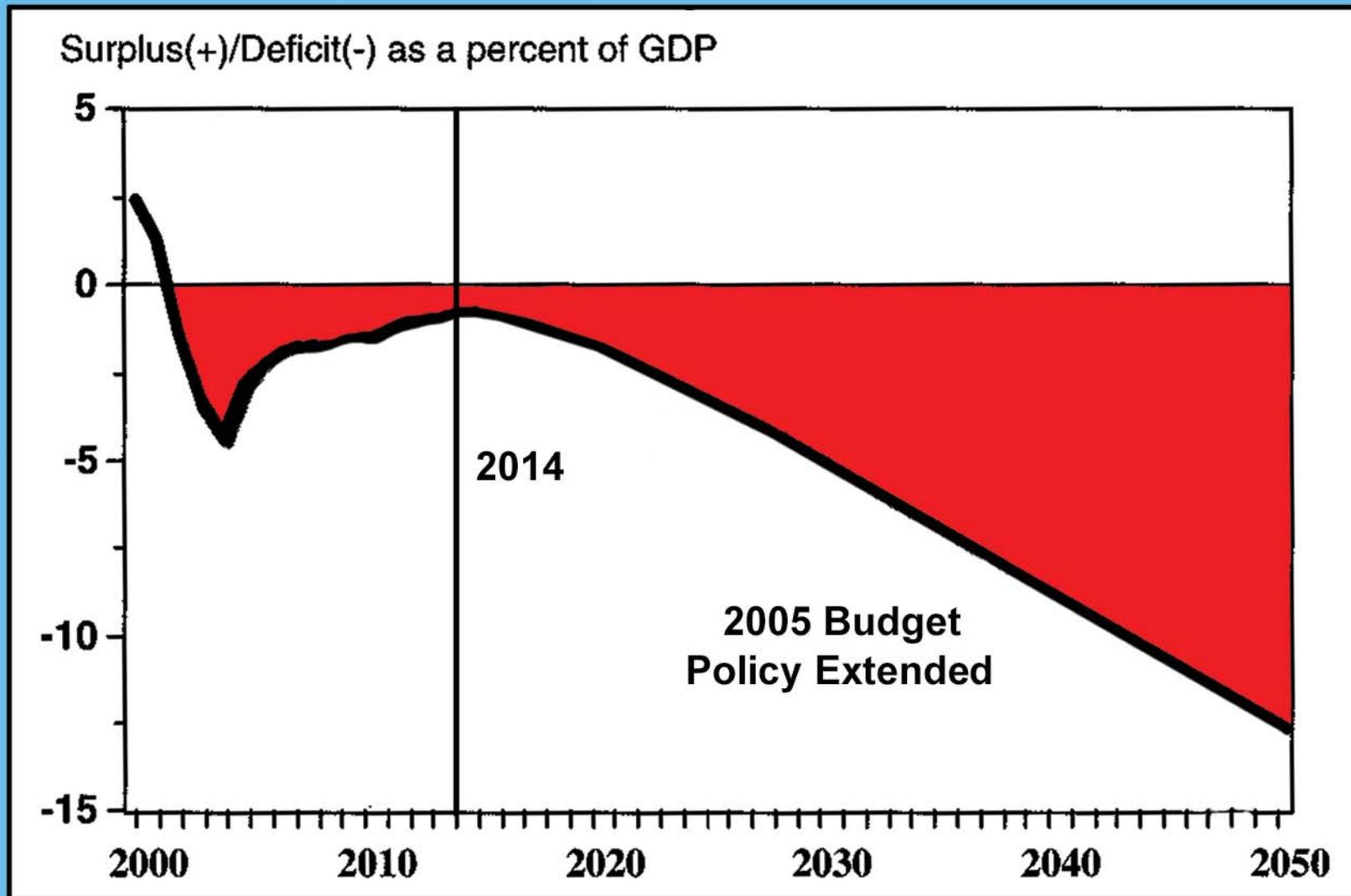
Source: Federal Reserve Board

Economists Worry About Long-Term Effects of Weak Dollar and Heavy U.S. Borrowing

“Currency traders fretting over that dependency have been selling dollars fast and buying euros furiously. The fear is that foreigners will tire of financing America’s appetites. Foreign investors will dump U.S. assets, especially stocks and bonds, sending financial markets plummeting. Interest rates will shoot up to entice them back. Heavily indebted Americans will not be able to keep up with rising interest payments. Inflation, bankruptcies and economic malaise will follow.”

**– *Washington Post* article
“Weak Dollar Helps U.S. Firms, for Now”
January 26, 2004**

The Next Ten Years: The Budget “Sweet” Spot



Source: President's Budget for FY 2005, Analytical Perspectives, pg. 194

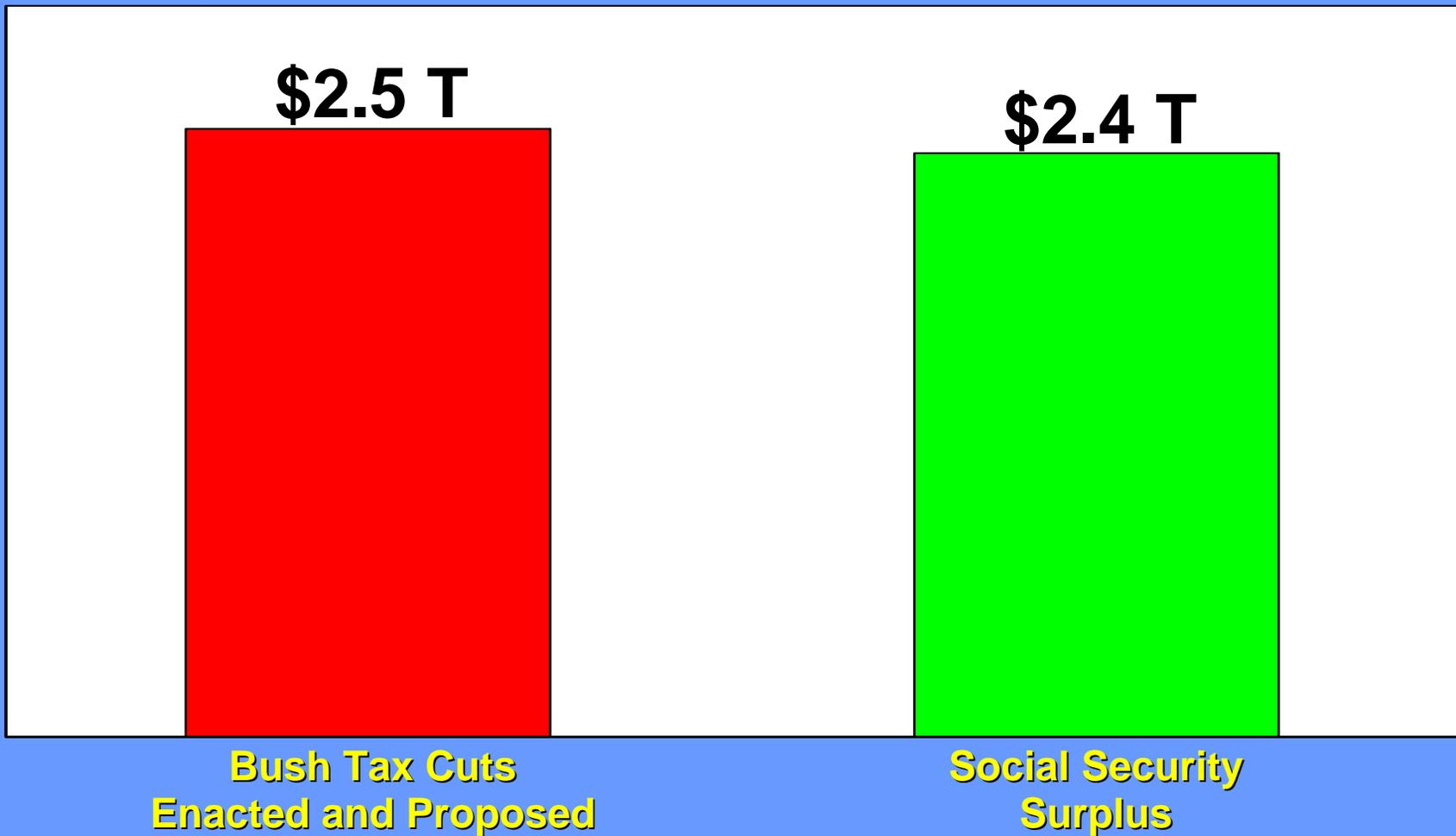
President Bush Promised to Protect Social Security

**“None of the Social Security surplus
will be used to fund other spending
initiatives or tax relief.”**

**– Excerpt from President Bush’s FY 2002 Budget
*A Blueprint for New Beginnings***

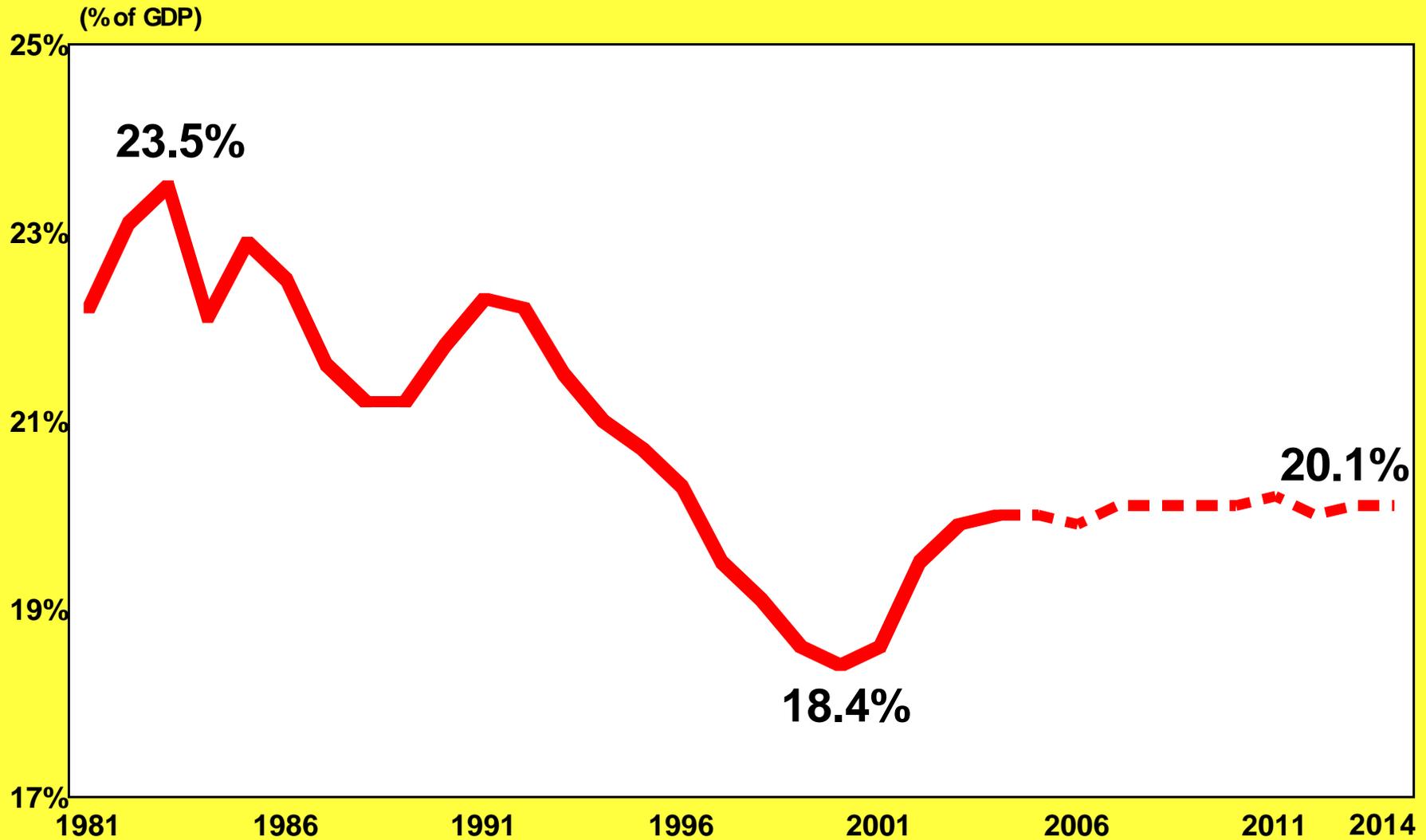
Cost of Bush Tax Cuts vs. Social Security Surplus (FY 2005-2014)

(\$ in trillions)



Source: JCT and CBO

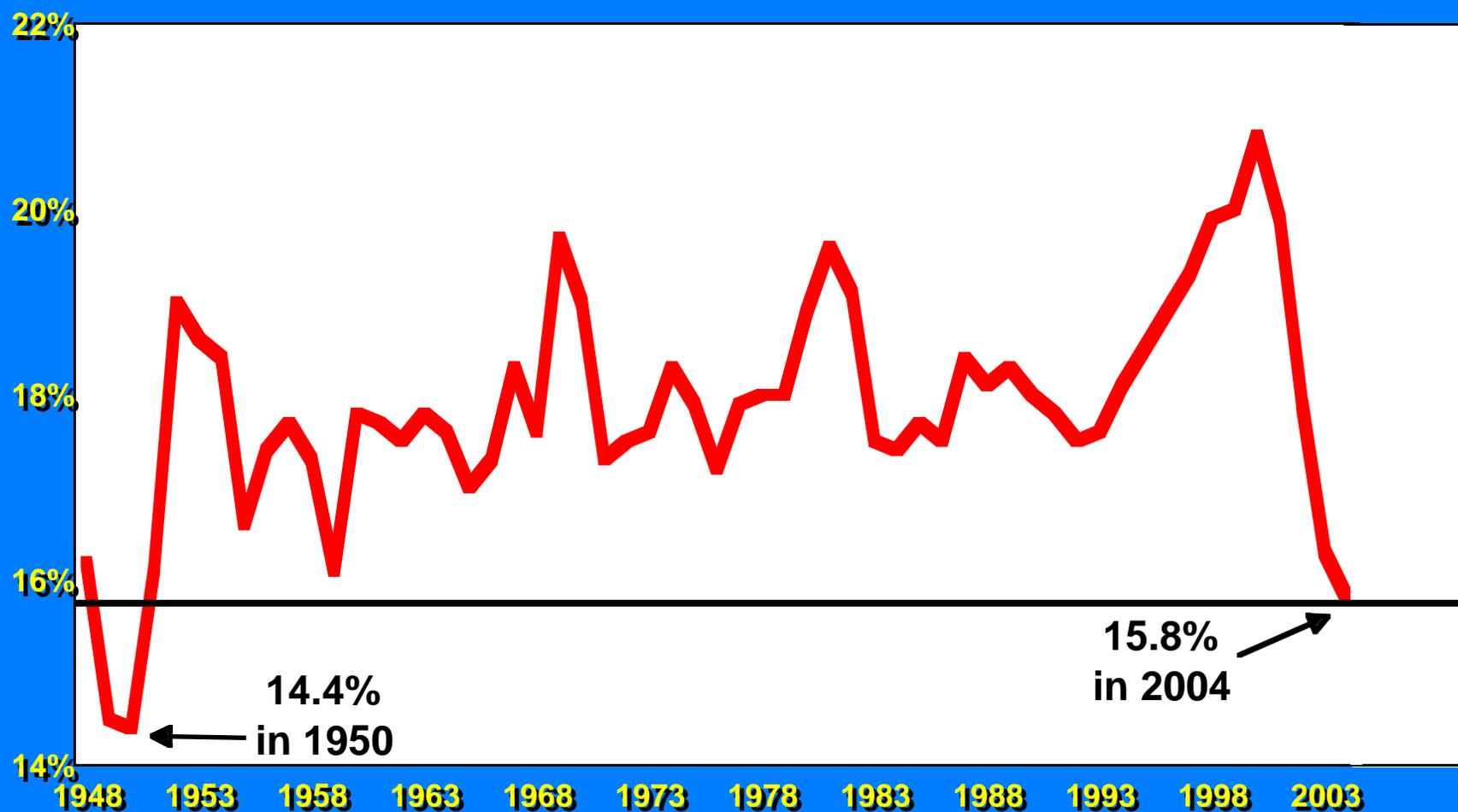
Total Federal Spending



Source: OMB historical data and CBO March 2004 baseline.

Revenues as a Percent of GDP

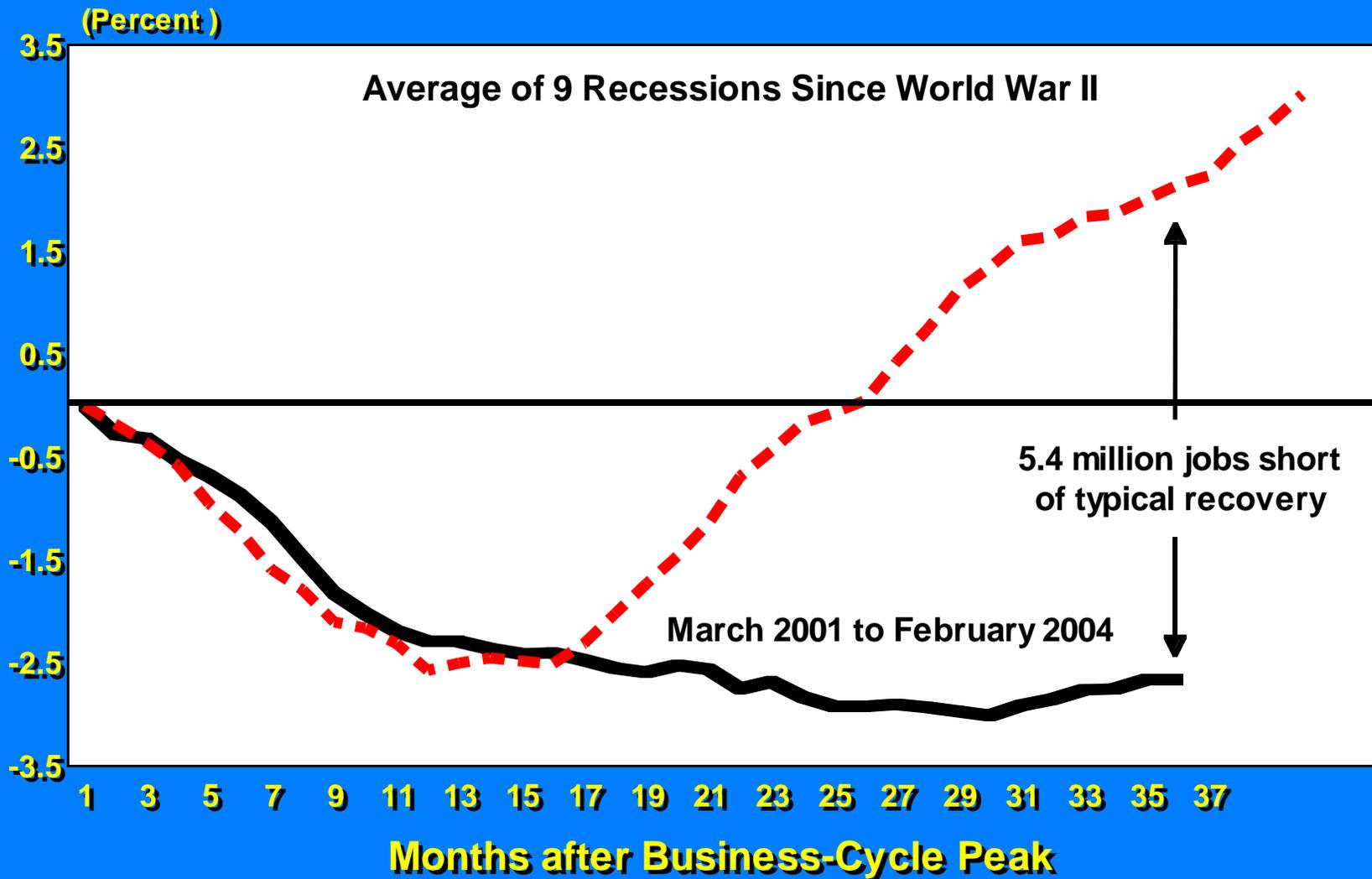
Lowest Level Since 1950



Source: CBO

The Job-Loss Recovery

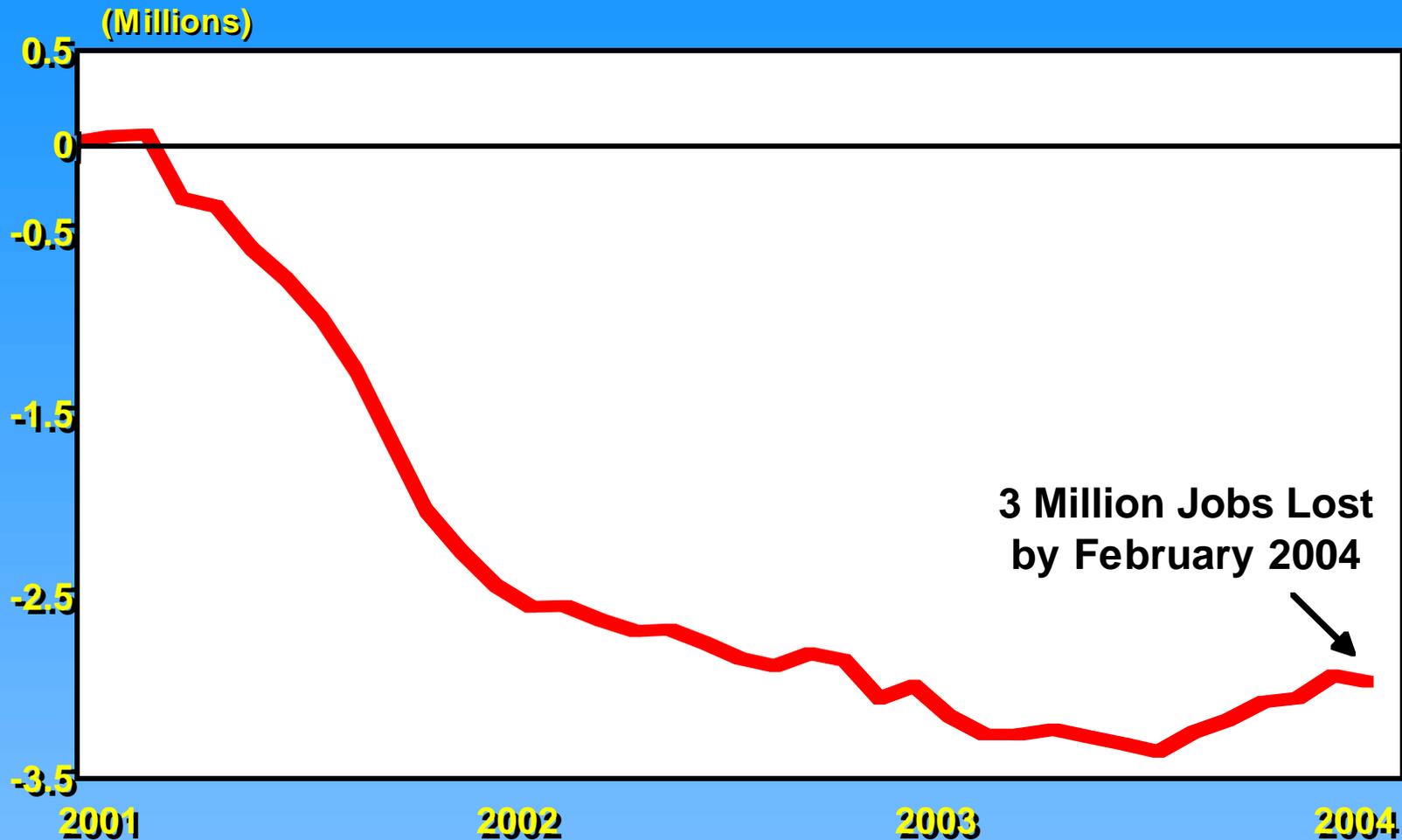
Private-Sector Jobs, Percent Change from Business-Cycle Peak



Source: BLS

Private Sector Jobs Decline

3 Million Jobs Lost Since January 2001



Source: Bureau of Labor Statistics

Note: Private Sector Jobs

Senate GOP Budget Increases Gross Debt by \$563 Billion in FY 2009

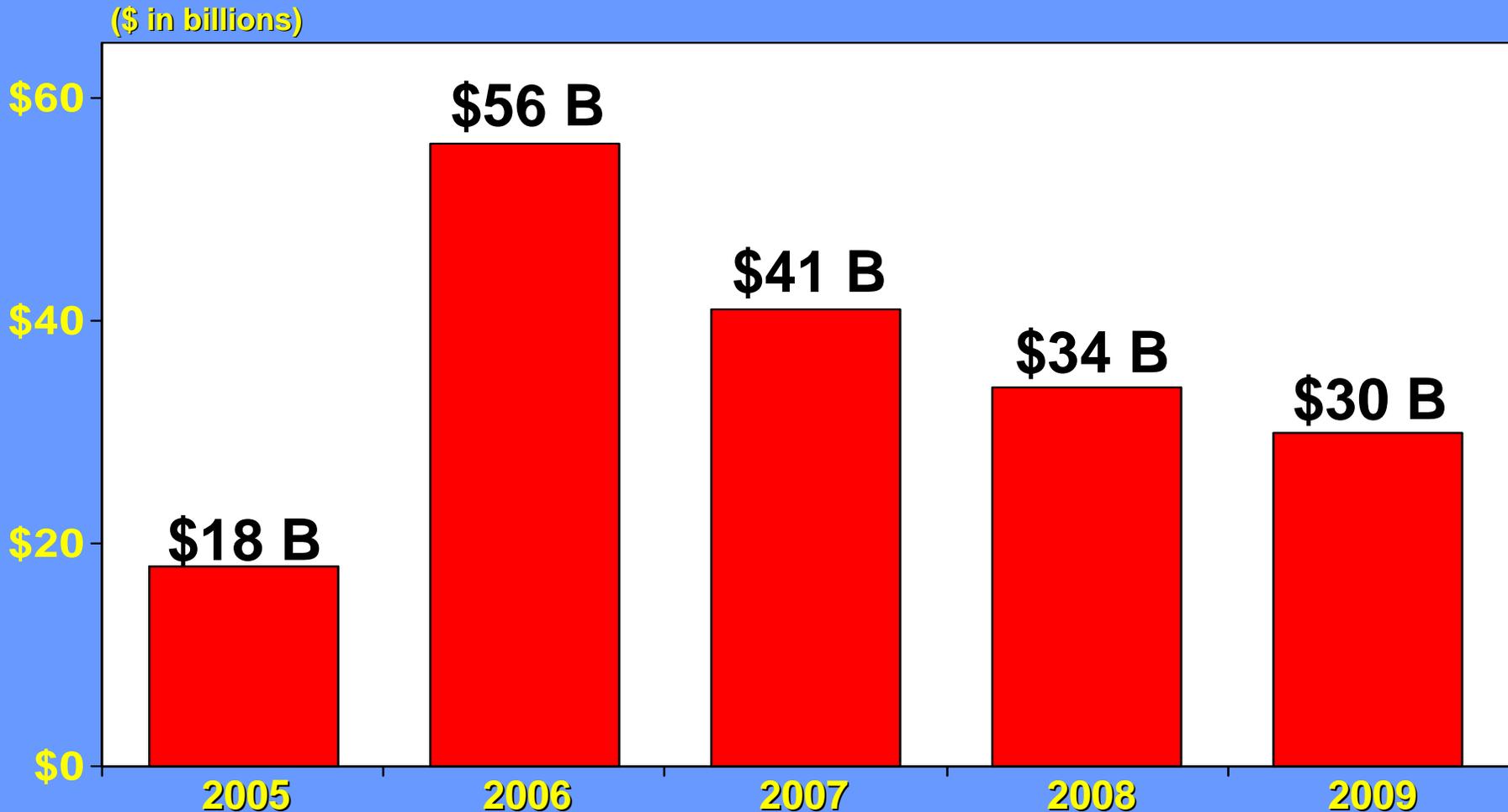
SUMMARY OF COMMITTEE REPORTED RESOLUTION FOR FY 2005: LEVELS OF SPENDING (\$ BILLIONS)

	2004	2005	2006	2007	2008	2009	2005-09
Unified deficit/surplus	-477.439	-338.171	-252.034	-223.108	-217.805	-201.725	-1232.843
On-budget	-638.235	-512.163	-445.011	-431.460	-441.755	-439.818	-2270.207
Off-budget	160.796	173.991	192.977	208.352	223.950	238.094	1037.364
Unified Deficit/Surplus % of GDP	-4.2%	-2.8%	-2.0%	-1.7%	-1.6%	-1.4%	
Debt Held by the Public	4,385	4,736	5,002	5,238	5,468	5,683	
Debt Subject to Limit	7,436	8,048	8,617	9,169	9,732	10,295	
		612	569	552	563	563	2,859

Source: Senate Budget Committee Reported Resolution

Senate Budget Plan Increases the Deficit by \$178 Billion Over 5 Years

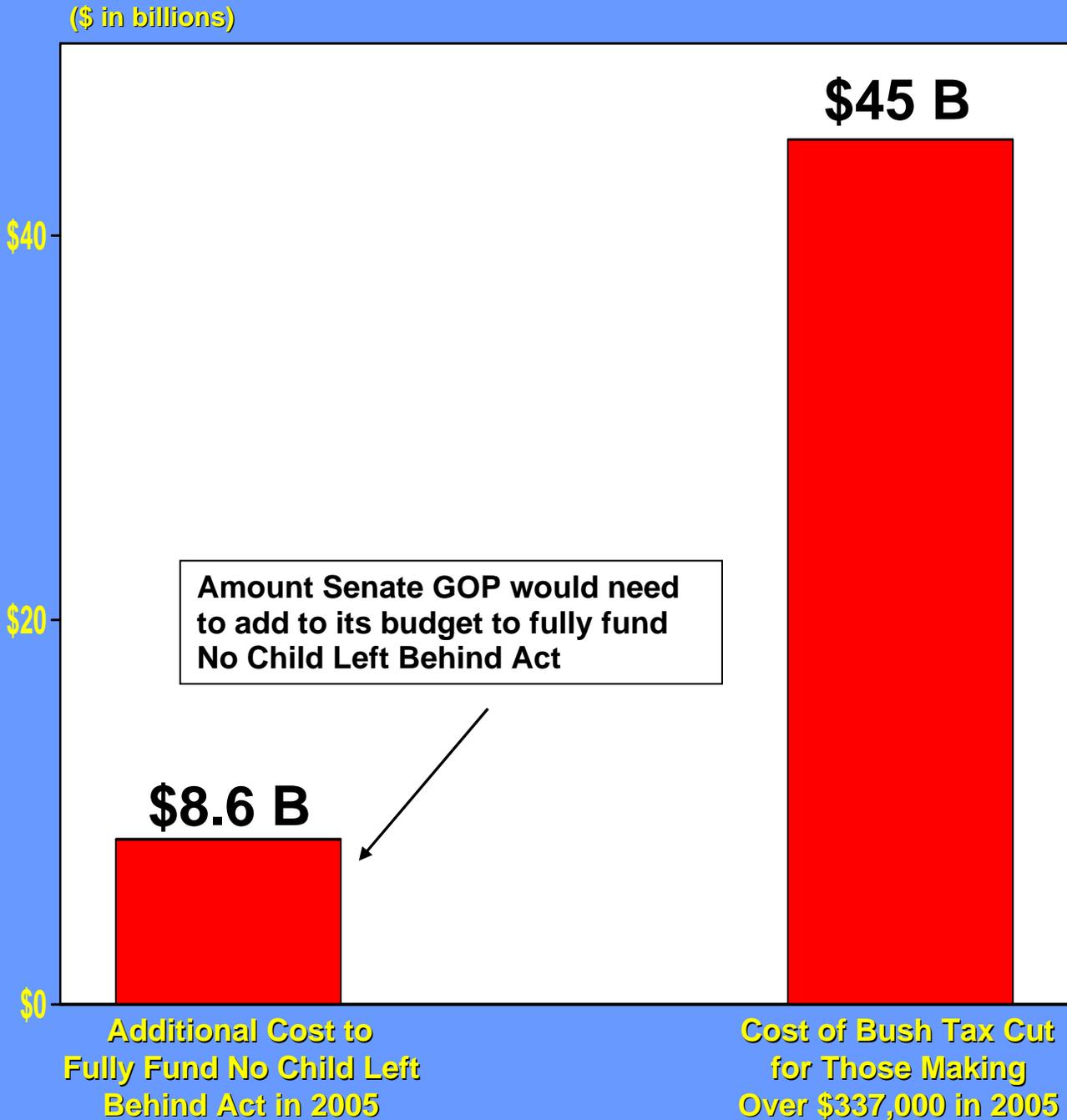
Increase Above CBO Baseline Deficit



Source: CBO, Senate-passed Budget Resolution

Note: Increases above CBO's Baseline without projected 2004 supplemental.

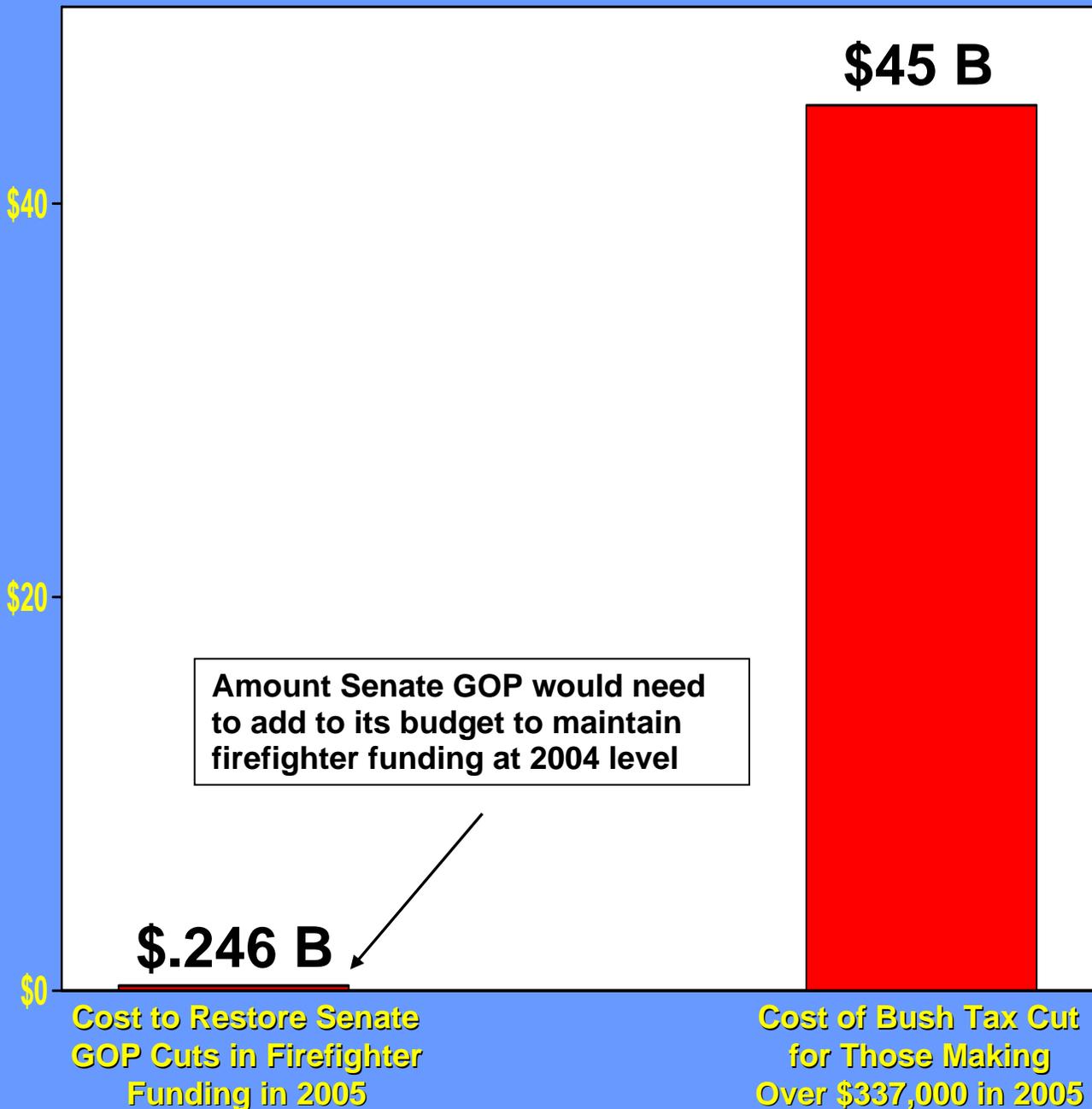
The Wrong Priorities: Senate GOP Plan to Cut No Child Left Behind Saves Little Compared to Cost of Tax Cuts for Top One Percent



Source: OMB, CBO, SBC based on Tax Policy Center data, Citizens for Tax Justice, and Department of Education

The Wrong Priorities: Senate GOP Plan to Cut Firefighter Funding Saves Little Compared to Cost of Tax Cuts for Top One Percent

(\$ in billions)



House GOP Budget Increases Gross Debt by \$596 Billion in FY 2009

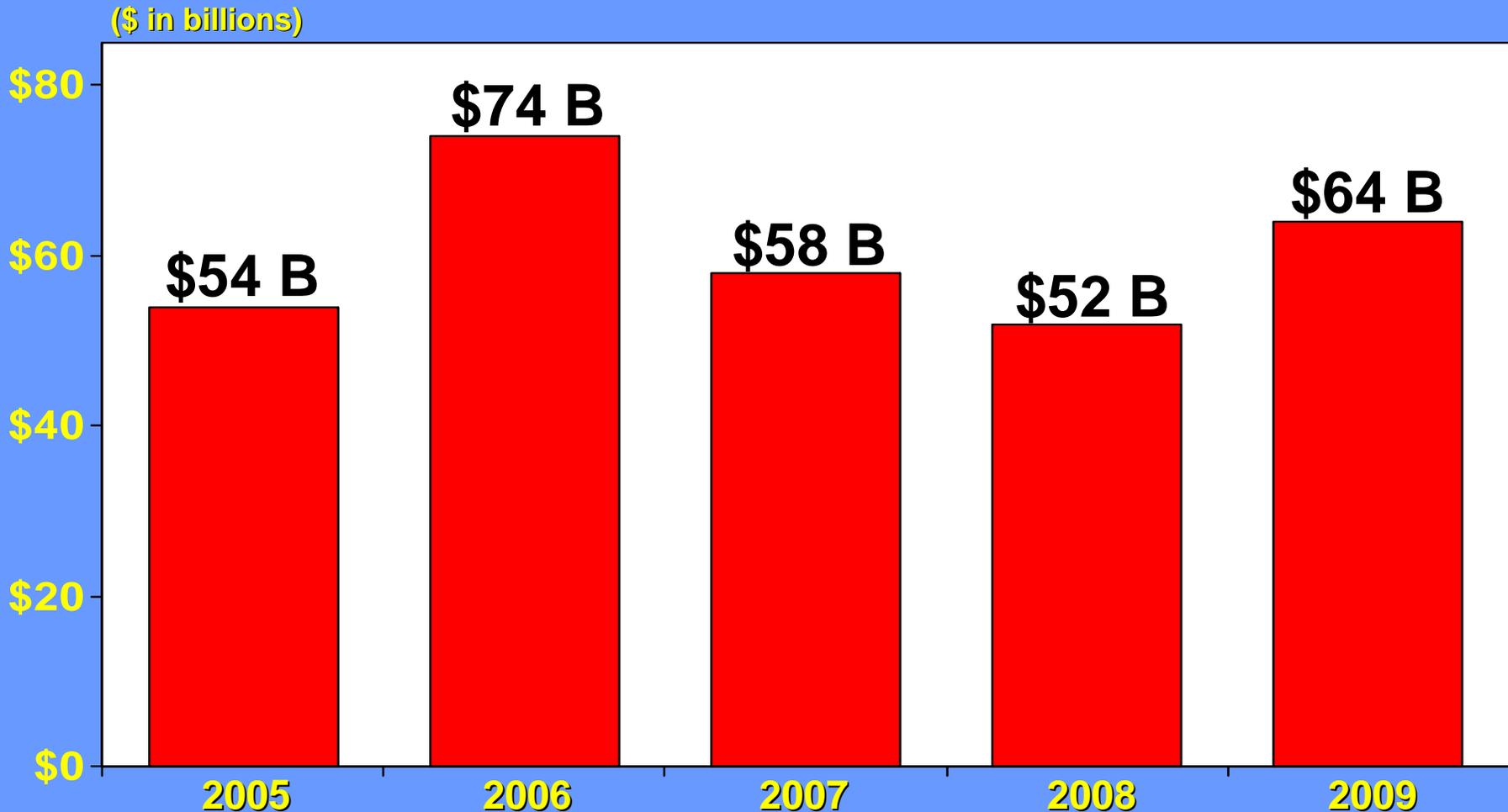
FISCAL YEAR 2005 BUDGET RESOLUTION TOTAL SPENDING AND REVENUES
[In billions of dollars]

Fiscal year	2004	2005	2006	2007	2008	2009	2005-2009
Summary							
Deficit (-):							
Total	-477.473	-376.827	-271.279	-239.820	-234.922	-233.978	-1,356.826
On-budget	-638.269	-550.711	-464.075	-447.878	-458.512	-471.813	-2,392.989
Off-budget	160.796	173.884	192.796	208.058	223.590	237.835	1,036.163
Debt Held by the Public							
(end of year)	4,385	4,775	5,060	5,312	5,560	5,807	na
Debt Subject to Limit							
(end of year)	7,436	8,087	8,675	9,244	9,823	10,419	na
		651	588	569	579	596	

Source: House Budget Committee Reported Resolution

House Budget Plan Increases the Deficit by \$301 Billion Over 5 Years

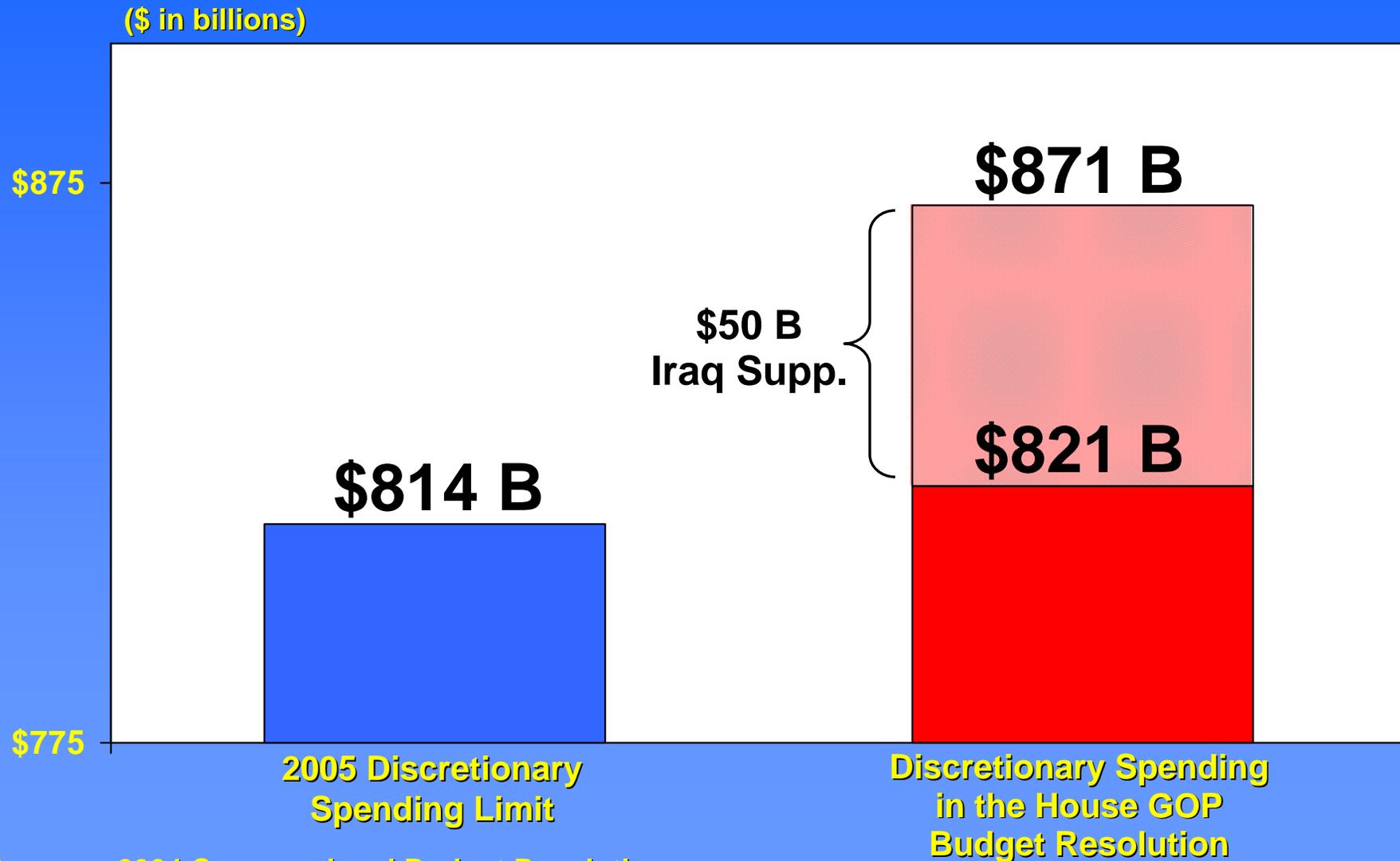
Increase Above CBO Baseline Deficit



Source: CBO, House-passed Budget Resolution

Note: Increases above CBO's Baseline without projected 2004 supplemental.

House GOP Budget Exceeds 2005 Spending Limit

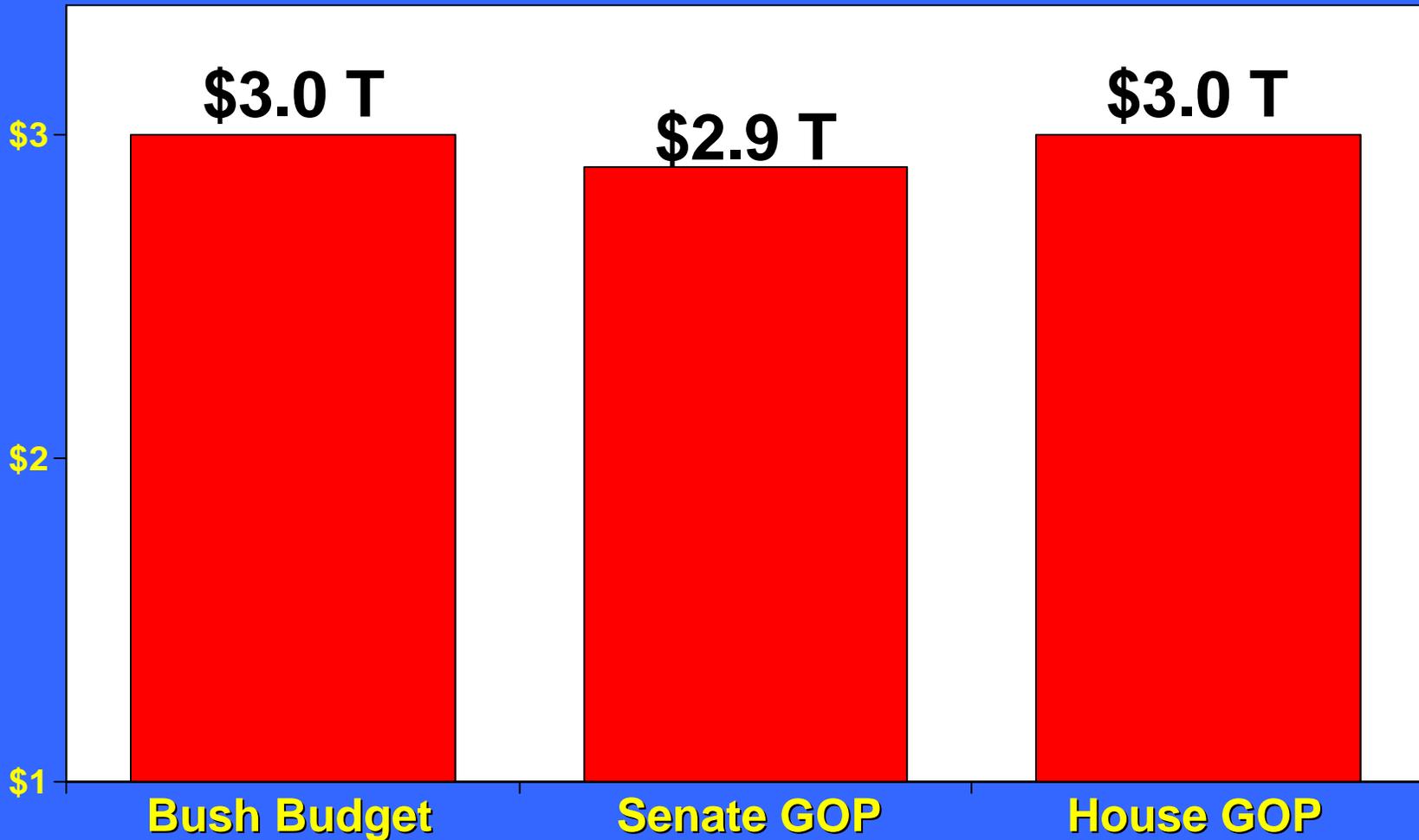


Source: 2004 Congressional Budget Resolution,
2005 House-passed Budget Resolution

Increase in Gross Debt Under GOP Plans Almost the Same as Under Bush Budget

(Increase in Gross Debt Between 2004-2009)

(\$ in Trillions)



Source: CBO and Senate Budget Committee

Fed Reserve Chairman Greenspan on Restoring PAYGO

“I would, first, Mr. Chairman, restore PAYGO and discretionary caps. Without a process for evaluating various trade-offs, I see no way that any group such as a Congress can come to a set of priorities which will be effectively reflecting the will of the American people.”

**– Federal Reserve Chairman Alan Greenspan
Testimony before the House Budget Committee
February 25, 2004**